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SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

October 21, 1983
2:00 p.m.
Roosevelt Room

Attendees:

Treasury

Secretary Regan (Chairman)
Beryl W. Sprinkel
Marc E. Leland

Office of the Vice President
G. Philip Hughes

State

Richard McCormack
Elinor Constable

Defense

Dov Zakheim
William J. Weida

Agriculture

Secretary John R. Block
Alan Tracy

Commerce

Secretary Malcolm Baldrige
Clyde Prestowitz

OMB

Joseph R. Wright
Alton G. Keel

CIA

Maurice Ernst

USTR

Robert E. Lighthizer
Harvey Bale

CEA

Jeffrey Frankel

AID

Richard Derham

White House

Richard G. Darman

Cabinet Affairs

Larry Herbolzheimer

OPD

John A. Svahn
Roger B. Porter

NSC

Roger Robinson
Norman Bailey

International Debt Update

The Chairman opened the meeting by turning to an update of the international debt situation for Brazil, the Philippines and Jamaica. In Brazil, Congress voted against the pending wage legislation and substituted another act. The outstanding question is whether this action was in conformance with IMF. Low income recipients would receive a 100 percent adjustment for inflation.

There are additional difficulties in forging a private funding package--\$6.5 billion--for Brazil. A \$2 billion plus rescheduling effort is occurring in the Paris Club. This SIG noted that a determination on whether Brazil can reach a modified agreement with the IMF will take place within two weeks of this meeting.

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In the case of the Philippines, the SIG noted that there had been an improvement in exports. A capital flight, however, had taken place since the assassination. There had also been a recent devaluation. The Philippines have requested ten banks to serve as an Advisory Committee in New York City with a 90-day moratorium put into effect. It appears that the Philippines will have to reschedule in 1984. They will seek bridging assistance.

Jamaica was found to be in a serious condition. They had failed to meet their performance targets and must seek a waiver from the IMF. Their arrearages are too high and they hold minimum net foreign assets. Seaga had announced publicly on October 11 that targets had been met--now a controversy seems inevitable. Although the SIG agreed that export earnings would increase next year, this may not be soon enough considering the exchange rate problem and their loose monetary and fiscal policy. Seaga is opposed to any new austerity measures at this time. Treasury is closely monitoring the Jamaican situation and believes that speed in handling the build up in arrearages is crucial.

Polish Debt

The SIG will implement the President's step-by-step program. On October 3-6, working experts went to Warsaw. The Poles were forthcoming. A general discussion of the Polish debt situation followed.

Japanese Capital Market

The SIG was informed that Japan announced discount rate cuts and several other important measures including liberalization of restrictions on real estate investments, foreign stock acquisitions, and a study to relax restrictions on forward foreign exchange transactions. A plan has been set to study establishment of a Banker Acceptance Market. While these measures were judged important, the SIG believes that bolder action may be required.

Marc Leland has chaired an IG on this issue and much work has gone into the outline of "next steps." We will seek a follow-on program and continue our push for further liberalization. The short-run effect of actions taken could actually weaken the yen, but over the long-term it should be strengthened.

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